

Department of Foreign Affairs and Trade
Submission to Economics and Industry Standing Committee Inquiry

1. INTRODUCTION – INDIA ECONOMIC STRATEGY

The Department of Foreign Affairs and Trade (DFAT) welcomes the opportunity to make a submission to the Committee's Inquiry into Western Australia's economic relationship with India.

India is already the world's third largest economy (on Purchasing Power Parity terms) and is on track to overtake China as the world's most populous country by 2035. India's growth is being driven by a transformative set of factors: a burgeoning youth population, strong domestic consumption and infrastructure investment, the urbanisation of the world's largest rural population, and a suite of reforms aimed at boosting business confidence and stimulating foreign investment.

Recognising the scale of the opportunity India presents, the Commonwealth Government commissioned an independent report by Peter Varghese AO, former Australian High Commissioner to India and former Secretary of DFAT, to provide a roadmap for the economic partnership over the next two decades.

Released in mid-2018, the report – *An India Economic Strategy to 2035: Navigating from potential to delivery* – represents the most detailed analysis so far of the complementarities of the Australian and Indian economies into the future. There is no market over the next 20 years which offers more growth opportunities for Australian business than India. The Commonwealth Government endorsed the India Economic Strategy in November 2018 and launched an initial implementation plan of more than 40 actions to cement India as a priority economic partner.

Importantly, the India Economic Strategy recognises that a strategic investment in the Australia-India relationship is needed at all levels. This includes leadership at the highest levels of the Commonwealth Government, complemented by efforts of state governments, business and the community more broadly.

2. THE ROLE OF STATES

At the core of the India Economic Strategy is a focus on 'sectors and states'. This recognises that India is a complex market and Australian efforts are more likely to succeed by matching our competitive advantages with Indian priorities.

Accordingly, the Commonwealth Government is prioritising its economic diplomacy efforts in India around ten key sectors: education, agribusiness, resources, tourism, energy, health, financial services, infrastructure, sport, and science and innovation.

The Commonwealth Government is also prioritising ten key states: Maharashtra, Gujarat, Karnataka, Tamil Nadu, Andhra Pradesh, Telangana, West Bengal, Punjab, the National Capital Region of Delhi, and Uttar Pradesh.

The Strategy's focus on Indian states reflects the reality that India is best seen not as a single economy but as an aggregation of diverse state economies, each growing at different rates and increasingly competing for investment. While engagement with the central government will remain essential on macro settings, the nature of India's federal system is such that India's states hold many of the levers to the business environment, including roads, electricity, water, state taxes and excises, a range of business licenses, schools and healthcare. These states will be critical to India's economic future and the investment climate, even more than the central government.

There are two key implications for the role of Australian state and territory governments, as outlined in the India Economic Strategy.

First, on both the sectors and Indian states to target, there is scope for more cohesion between the Commonwealth Government and the strategies of Australian states and territories. Australia is competing in an increasingly crowded marketplace in India. One of the foremost challenges for Australian players is cutting through and getting noticed. Given many Indian entities are not at this stage able to meaningfully distinguish between the offerings of Australian states, a lack of coordination tends to at best dilute the message, and at worst, undermine the broader national interest. The India Economic Strategy recommends a stronger emphasis on 'Brand Australia' across a range of sectors, including education, agribusiness, water, tourism, resources, and energy and METS. Joined-up approaches are most compelling where several states are active in a particular market.

It is worth noting the strong commonalities between the India Economic Strategy's priority sectors and those identified in Western Australia's Asian Engagement Strategy (energy, tourism, education, mining, technology and primary industries). This represents strong potential for Western Australia's engagement with India to leverage and complement the India Economic Strategy.

Second, state-to-state engagement is increasingly important to unlocking the opportunities India presents. India's states are assuming more economic decision-making power from the central government and this is likely to continue. Similarly, a greater share of India's foreign engagement and economic diplomacy is being conducted from state capitals. Western Australia's establishment in 2016 of a sister-state relationship with Andhra Pradesh, one of the Strategy's priority states, is a welcome development and there would be strong benefits from continued engagement with a state known in recent years for its strong growth and appetite for reform. As one of India's most quickly growing economies, Andhra Pradesh represents a growing export market for value-added Australian products such as wine and processed foods.

The agriculture section in Andhra Pradesh is growing, with particular opportunities for growth in dairy, fisheries and aquaculture. Western Australia's strong fisheries industry is a clear complementarity, particularly given recent government investment in the aquaculture sector, providing an opportunity for collaboration.

In general terms, there are elements of India's political and business environment which Western Australia should consider when framing its economic engagement with India.

Long-term, sustained and deep relationships with people, businesses and institutions matter in India. Regular visits to India are important to building connections, especially in the early stages of the relationship. Having a representative on the ground, such as that offered by Western Australia's presence in Mumbai, can help to advocate for the relationship, expedite processes and bridge cultural differences. A number of state governments have benefitted from appointing a special envoy or high-level champion for India to drive personal relationships. Indian state governments may see participation at government-hosted trade events or government-to-government Memorandum of Understanding (MoUs) with commercial players or chambers of commerce as credible pathways to further engagement. Strong productive relationships with people, business and institutions in India is important in minimising and managing barriers to trade. Insights or forewarning into potential trade policy or regulatory changes in India can go a long way to minimising trade disruptions and damage to the broader bilateral relationship.

An increased pattern of ministerial visits to India, including by the Western Australian Premier in November 2019 and Western Australia Tourism Minister in October 2018, is an encouraging first step.

Tight fiscal conditions and capacity constraints of states will remain a challenge. Given global competition for the attention of Indian state governments, successes can be slow to eventuate and a long-term view is essential.

Australian Federal Government support for state and territory engagement can often be required to show endorsement, secure access and lend credibility in India.

The Commonwealth Government's response to the India Economic Strategy recognises the importance of seeking stakeholder input and therefore commits it to consulting broadly to build a partnership model for approaching India. This includes consultation with state and territory governments.

The Commonwealth Government has consulted and will continue to consult with the Western Australian Government on the implementation of the Strategy, seeking to leverage a coordinated approach in strengthening our economic links with India. In recent months, DFAT has coordinated high-level engagement with the Western Australian Government, including by supporting the visits to Western Australia of the Strategy's author Peter Varghese AO in May 2019, Australia's High Commissioner to India, Harinder Sidhu, in September 2019 and the board of the Australia India Council in September 2019. DFAT's Posts in India, as well as representatives from a range of federal agencies within them, work closely with Western Australia to support economic engagement and visits, including with their representative in Mumbai.

3. THE IMPLEMENTATION PLAN IN-DEPTH

DFAT and other government agencies are implementing an initial plan of more than 40 actions to put the India Economic Strategy's recommendations into practice (see: <https://dfat.gov.au/about-us/publications/Documents/government-response-to-an-india-economic-strategy-to-2035.pdf>). A range of these are of relevance to state and territory governments, including Western Australia and its sectoral interests in India.

To provide high-level leadership, the Commonwealth Government has appointed Ministerial Champions (the Minister for Trade, Tourism and Investment, the Minister for Education, the Minister for Agriculture, and the Minister for Resources and Northern Australia) for the four lead sectors in the Strategy (tourism, education, agribusiness, and resources respectively).

On 19 September 2019, the Minister for Trade, Tourism and Investment, Senator the Hon Simon Birmingham, chaired the first meeting of the Committee of Ministerial Champions. The meeting discussed the achievements under Strategy as well as forward plans for advancing the Australia-India economic relationship.

In the education sector, the Minister for Education, the Hon Dan Tehan MP, led a delegation of senior leaders from the education sector to India in November 2019. Minister Tehan visited India to participate in events and meetings with the Indian Minister for Human Resource Development, engage Indian education and research stakeholders, and attend local events in support of the Australian education and research sector.

The Government convened an education 'states forum' on India in August 2019, bringing together Australian state and territory governments to discuss shared approaches to the Indian market. The Government also supported the Council for International Education's India Reference Group of industry experts which developed recommendations to take forward bilateral engagement in the education, training and research sector.

In the tourism sector, new arrangements were made under the existing Australia-India Air Services Agreement in June 2018, laying the groundwork for airlines to increase direct flights across six Indian and six Australian capital cities, including Perth. Tourism Australia is working with the states and territories, airlines and airports to explore opportunities to support new routes out of India to Australia. Tourism Australia also launched 'UnDiscover Australia', a bespoke promotional initiative across India, Singapore, Malaysia and Indonesia in 2018, recognising that the Indian tourism market is growing rapidly. India is currently Tourism Australia's fastest growing inbound market, and is on track to become Australia's fourth largest tourism market by 2035.

In agriculture, a second Commonwealth Agriculture Counsellor was posted to India in March 2019 to foster deeper institutional ties and strengthen advocacy for Australian agricultural trade to India at federal and state levels. The Commonwealth Government has also continued its long history of agricultural cooperation with the Indian Government by providing training on biosecurity treatments to facilitate the flow of agricultural goods, and assist India in developing its capacity to support the export and import of agricultural goods.

In the resources sector, Senator the Hon Matthew Canavan, Minister for Resources and Northern Australia, travelled to India in August 2019. He visited India in his capacity as India

Economic Strategy Ministerial Champion for Resources, to deepen ties in the resources relationship, including promoting Australian exports and encouraging Indian investment in Australia. The Australia-India Mining Partnership at the Indian School of Mines has also been successfully expanded. Established in 2014, the partnership highlights the adaptability of Australia's mining equipment, technology and services (METS) to Indian conditions.

The Australia-India Business Exchange (AIB-X) is a new, Austrade-led, Australia-India business marketing platform that will build on the success of Australian Business Week in India, last held in 2017. This multi-month campaign will include a coordinated program of activities, events, and visits to India, and there will be opportunities for state and territory governments to participate, including through a program of visits to India. Minister Birmingham will lead a business mission to India in late February as part of AIB-X, with sectoral events and workshops to be held in five cities. This will provide an opportunity to deepen trade and investment ties, focusing on small and medium enterprises across the India Economic Strategy's priority sectors. Further information can be found at: <https://www.austrade.gov.au/events/events/aibx>

Prime Minister Morrison's trip to India will be rescheduled during 2020, and will further cement India in the top tier of Australia's partnership.

Looking ahead, India is in the final stages of drafting its counterpart report, the Australia Economic Strategy, which will offer further opportunities to take forward the relationship. It will be important to consider a harmonised Australian response when this is released.

4. BARRIERS AND IMPEDIMENTS TO TRADE

As with any significant international partnership, there will be challenges in the Australia-India relationship – including barriers, impediments and distortions to agricultural trade.

Australia currently plays an important role in India's food security, with Australian producers filling the underlying/structural supply gaps in the Indian agricultural market, including for premium products. Australia is a long-term partner with India to develop and grow its agricultural sector and our economies have numerous complementarities.

However, the Commonwealth Government is concerned about the impact of India's agricultural trade settings on Australia's agricultural sector and on global markets. A number of India's trade restrictive agriculture policies have contributed to negative impacts on Australian industry. Producers of grains and pulses currently face prohibitively high tariffs, while quantitative restrictions (quotas) on certain varieties of pulses have distorted global pulse markets, and the Commonwealth Government has questioned their consistency with India's WTO obligations. India's high tariffs in particular have contributed to a decrease in Australian exports of pulses to India from \$1.4 billion in 2017 to \$31 million in 2018 — a nearly 98 per cent reduction.

India's subsidisation of sugar and sugarcane production has also had a negative impact on the Australian sugar industry. Those subsidies have resulted in oversupply and contributed to the suppression of global sugar prices. The Commonwealth Government considers that

India's sugar subsidies are inconsistent with India's WTO obligations. On 28 February 2019, the Commonwealth Government announced it had commenced WTO dispute settlement action against India. Brazil and Guatemala also initiated WTO disputes about these subsidies at the same time.

Reform of India's sugar sector will take time, but Australia continues to engage Indian agencies and officials on the benefits of taking a market-based approach to agriculture.

5. Conclusion

Australia's India Economic Strategy provides a valuable roadmap for developing the economic partnership with India. There's no single major market out to 2035 with more growth opportunities for Australian business than India.

Cementing India as a priority economic partner will require strategic investment in the relationship by the the Federal Government, State Governments, businesses and the wider community.

Cohesion between the Commonwealth Government and the strategies of Australian states and territories – including Western Australia's Asian Engagement Strategy – is critical to developing a stronger 'Brand Australia'. State-to-state engagement – including with states like Andhra Pradesh – is also increasingly important to unlocking the opportunities India presents. Australia's economic efforts will more likely succeed when our competitive advantages are matched with India's priorities.

India's Australia Economic Strategy will also provide further opportunities to deepen our economic relationship in the future.